MANITOBA CONSUMERS GAS CORP.

Estimate of Value of the Shares of
Greater Winnipeg Gas Company and
ICG Utilities (Manitoba) Ltd.

WOOD GUNDY INC.

July 1987

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Estimate of Value of the Shares of Greater Winnipeg Gas Company and ICG Utilities (Manitoba) Ltd.

Executive Summary

(1) The purpose of this report is to estimate a fair market value for the shares of Greater Winnipeg Gas Company and ICG Utilities (Manitoba) Ltd. (collectively "Manitoba Consumers Gas Corp." or the "Company"). In preparing our estimate, we have relied solely upon publicly available information and information provided to us by the Province of Manitoba, Department of Energy and Mines and Samson Belair, Chartered Accountants.

(2) In arriving at our estimate of the fair market value we employed certain valuation techniques which are commonly employed in the investment industry in order to determine the value of the shares of gas and other utility companies. The following table sets out a summary of our estimates of the value of the shares of Manitoba Consumers Gas Corp. after applying an appropriate control premium.

Method	Estimated value of shares (millions)
(1) Multiple of book value	$87 - $100
(2) Dividend yield	$81 - $ 95
(3) Earnings multiple	$83 - $ 92
(4) Discounted cash flow	$72 - $100

(3) Based on our according the greatest weight to the multiple of net book value and dividend yield approaches and very little weight to the other approaches, we estimate the value of the shares of Manitoba Consumers Gas Corp. at between $87 million and $93 million. Based on a share value of $87 million to $93 million, the gross value of the distribution assets of Manitoba Consumers Gas Corp. could be in a

range of $177 million to $183 million as determined by adding back the book value of the long term and short term debt as at December 31, 1986.

(4) The estimate of fair market value of between $87 million and $93 million is our estimate of the value which would be attributed to the shares by a private sector purchaser on the basis of the Company's existing operations and prospects without incorporating the effects of any grants or subsidies from external sources. A price of $87 million to $93 million would be reflective of the commercial realities of an investment in the Company and as such the payment of a purchase price in this range by the Province of Manitoba would appear to provide the basis for a sound investment, all subject to the accuracy and completeness of the information provided to us.

(5) The above range of values does not specifically incorporate various benefits which could be available to the Province of Manitoba as a result of its government position and interests. These benefits might be derived from factors such as:

(i) the potential for lower regulatory risk;
(ii) the potential for lower borrowing costs;
(iii) potential economies of scale;
(iv) the potential for realizing certain tax benefits; and
(v) increased potential to secure natural gas at lower prices.

Estimate of Value of the Shares of Greater Winnipeg Gas Company and ICG Utilities (Manitoba) Ltd.

Nature of Assignment

This report has been prepared at the request of the Province of Manitoba, Department of Energy and Mines ("Energy"), which has asked us to consider certain information concerning the assets and operations of Greater Winnipeg Gas Company ("GWG") and ICG Utilities (Manitoba) Ltd. ("ICGUM") for the purpose of estimating a range of values for the shares of these companies as at December 31, 1986 after considering the effect of information available to the date of this report. Throughout this report the terms "Manitoba Consumers Gas Corp." and the "Company" shall refer to the combined operations of GWG and ICGUM. We understand that the purpose of this report is to assist the Province of Manitoba ("Manitoba" or the "Province") in its deliberations regarding the potential acquisition of 100% of the common shares of ICGUM and 99.8% of the common shares of GWG.

Scope of Review

In preparing our estimate of a range of values, we have had discussions with representatives of Energy as well as with representatives of Samson Belair, Chartered Accountants and we have reviewed such public documents and other available information as we have considered to be relevant, including:

(i) GWG annual reports to shareholders for the years ended December 31, 1975 through 1986;

(ii) ICGUM audited financial statements for the years ended December 31, 1975 through 1986;

(iii) Inter-City Gas Corporation ("ICG") annual reports to shareholders for the years ended December 31, 1982 through 1986;

(iv) Public Utilities Board of Manitoba orders pertaining to rate base and rate of return applications by GWG;

(v) Public Utilities Board of Manitoba orders pertaining to rate base and rate of return applications by ICGUM;

(vi) Joint Submission of ICGUM and GWG Regarding Deregulation of Natural Gas Prices, January 1987;

(vii) GWG Application to the Public Utilities Board of Manitoba for a General Rate Increase Based on a 1986 Historical Test Year;

(viii) An Evaluation of Residential Space Heating Options in Manitoba, Department of Energy and Mines, June 8, 1983;

(ix) National Energy Board annual reports for the years ended December 31, 1985 and 1986;

(x) National Energy Board reasons for decision for
- Cyanamid Canada Pipeline Inc.
- Westcoast Transmission Pipeline Inc.
- Manito Pipelines Ltd.
- Foothills Pipe Lines (Yukon) Ltd.
- TransCanada PipeLines Limited
- TransQuebec & Maritimes Pipeline Inc.
- Trans Mountain Pipe Line Company Ltd.;

(xi) National Energy Board, Canadian Energy Supply and Demand 1985-2005;

(xii) Energy Resources Conservation Board, Energy Requirements in Alberta 1986-2010;

(xiii) publicly available information on comparable companies in Canada;

(xiv) Benchmarks: Utilities and Pipelines, Wood Gundy Research, July 1986; and

(xv) The Polymetric Report, July 1987.

We have not had discussions with representatives of ICG, GWG or ICGUM and we have relied solely upon the information available publicly or provided to us by Energy and Samson Belair. We have assumed that all such information is accurate and complete and we have not conducted any separate investigation for the purpose of verifying the accuracy or completeness of any item.

Approach to Assignment

In estimating the value of the shares of a corporation, a number of approaches are normally considered, depending upon the nature of the corporation in question and market conditions at the time of review. The end result is intended to provide a proxy for fair market value for the shares of the corporation. Fair market value can be defined as the highest price obtainable, expressed in terms of money or money's worth, in an open and unrestricted market between a willing and informed buyer and a willing and informed seller dealing at arm's length, where neither party is under any compulsion to enter into the transaction.

In arriving at our estimate of the fair market value of the common shares of the Company, we employed certain valuation techniques which are commonly employed in the investment industry in order to determine the value of the equity of gas and other utility companies. These methods attempt to value the Company on the basis of the stream of earnings and cash flow that the Company is in a position to generate. This approach is widely used in valuing companies in regulated industries, in large part because earnings and cash flow can be reasonably well estimated on the basis of the value of the underlying assets of such a company. These valuation techniques can be listed as follows:

(i) multiple of net book value;
(ii) dividend yield;
(iii) earnings multiple; and
(iv) discounted cash flow.

We believe that the multiple of net book value and the dividend yield methods are the most appropriate approaches for determining our estimate of the value of Manitoba Consumers Gas Corp. principally because we believe these are widely used means in the investment industry that are appropriate for determining the price for the sale of shares of gas and other utility companies.

In preparing our estimate on the value of the shares of Manitoba Consumers Gas Corp. we have calculated the value which we believe would be attributed to the Company by a private sector purchaser of all of the shares.

Following is a detailed review of each of the valuation methods listed above.

Multiple of Net Book Value

A common method for deriving the value of a regulated company's equity in the stock market involves the application of a multiple to that company's underlying net book value. The shareholders of a pure regulated company normally receive a return which is closely correlated to the book value of the company's common equity and is based on a regulatory board's estimate of what constitutes a fair return on that level of equity. Since the return to the common shareholders of a regulated company is closely associated with net book value, the shares of regulated companies generally trade in a close relationship to this net book value. Historically, pure utilities (that is; companies which focus primarily on their regulated business and have minimal or no investment in non-regulated businesses) have traded in the public market at relatively small premiums to their net book value (see Appendix 1).

A stock market trading premium of 10% to 15% over net book value has been commonly considered to be justifiable by regulatory boards in order to allow a regulated company to maintain its financial integrity and preserve its ability to attract new capital. Regulatory bodies therefore have set allowable returns on equity at levels designed to make it possible for the company's shares to trade in the market place at such a premium. This target premium of 10% to 15% is meant to allow the regulated company to raise additional equity capital at a price which would not dilute the existing net book value.

The average premium to net book value has climbed dramatically since the early 1980's. Currently, premiums to net book value are well above historical levels and average approximately 45% (see Appendix 2). The current high level of premiums to net book value appears to reflect:

(i) the fact that regulatory boards have allowed or may allow utilities to earn more than is justified strictly by the book value of the equity notably because of the comparable earnings test;

(ii) investors' perceptions that utilities have performed well and will continue to perform well because of the time lag between decreases in the prevailing levels of interest rates and corresponding reductions in allowed rates of return in rate decisions; and

(iii) the fact that investors may attribute a scarcity value to companies that have regulated operations only.

We believe that GWG and ICGUM can be appropriately valued using the multiple of book value approach since their returns are determined in a manner similar to that of most publicly traded regulated companies. However, the premiums which should be applied to each of GWG's and ICGUM's net book values have to be considered in the context of the prospects and the risks of each company relative to comparative regulated companies.

Reference is made to Appendix 3 which sets out financial data for several companies the operations of which closely match those of a purely regulated business, and financial data for other companies which have operations in regulated industries. While none of these companies is directly comparable to either GWG or ICGUM, they provide the best available yardsticks against which investors can judge the value of GWG and ICGUM. In attempting to value a regulated company's shares, investors will rank GWG and ICGUM against a comparison group according to a number of factors including:

- profitability
- stability of cash flow
- competitive position
- growth prospects
- financial position

(A) Greater Winnipeg Gas

Regulated companies have been allowed rates of return on equity ranging from approximately 12.5% to 17% (see Appendix 4) and recently have been achieving rates of return on equity of from 8% to 22% (see Appendix 5). Recent rate of return decisions have allowed returns of approximately 12.5% to 14%, near the lower end of the above ranges. We believe that the downward trend of allowable returns on equity is likely to continue primarily because of our expectations that interest rates will continue to fall.

GWG's achieved rate of return on utility common equity was below the average of the comparison group in 1986, in part due to abnormally warm weather. When analyzing this ratio, however, investors would tend to focus on the overall level and trend rather than on the low point. From this perspective GWG's performance has been in line with that of the comparable utilities, leading us to expect no significant downward adjustment from the average multiple of net book value for this factor.

Tariffs for most regulated companies are determined on the basis of providing sufficient revenue to cover the costs of operations as well as providing sufficient additional cash flow to provide appropriate returns to debt and equity holders. A per unit charge is then derived based on the expected level of demand. As such, if levels of demand can be accurately estimated, there will be little unexpected variability in the levels of cash flow. As can be seen by a review of Appendix 6, the variability in the levels of demand for GWG's services appear to be somewhat lower than but generally comparable to those of other regulated companies.

Competitively, it appears that GWG is essentially as well positioned as the comparison utilities. GWG operates the only natural gas distribution system supplying gas to metropolitan Winnipeg. On the basis that no competing distribution systems are being planned or built, GWG's monopoly status appears secure.

Although electricity and fuel oil provide alternatives, natural gas has a commanding share of Manitoba's residential and commercial energy markets and has a solid position in the industrial market (see Appendix 7). Reinforcing the strong position of natural gas in the residential and commercial markets is the high cost of switching from one type of fuel to another in response to changes in relative fuel prices. Residential or commercial customers that are currently using natural gas fuel will generally continue to use natural gas for the life of their equipment, usually 10 to 15 years, rather than incur the costs of installing equipment to utilize an alternative source of energy.

Natural gas also has a significant cost advantage relative to other fuels, further supporting its market position. To a residential buyer natural gas was approximately 18% less costly per unit of energy than electricity in 1985 and was approximately one-half as costly as light fuel oil (see Appendix 8). Similar savings were available to commercial and industrial users of natural gas. This data, combined with the fact that GWG's gas sales volumes have remained relatively constant over time, provides further support for the argument that natural gas use will not be overtaken by other alternatives and will maintain its competitive position.

Supplies of natural gas are currently abundant and are expected to remain so well into the future. The National Energy Board (the "NEB") estimates that the current conventional productive capacity in the western Canadian sedimentary basin is sufficient to meet expected domestic and export demand until at least the turn of the century (see Appendix 9). We believe that the NEB's 15 year security of supply policy, and the fact that very large gas deposits such as Shell Canada Limited's recent find near Caroline Alberta, are still being discovered, are evidence of the abundance of reserves. However, an unknown factor is the extent to which Canadian reserves may be reduced by exports to U.S. markets. It is thought that the deliverability of U.S. gas reserves has declined significantly recently due to the very low level of natural gas exploration and development drilling in that country. As a result natural gas prices could see sharp increases in future years. We believe, however, that there exists only a small likelihood of significant rises in Canadian gas prices prior to 1990. As a result it would appear that the competitive position of natural gas can be maintained at least into the medium term. This last fact, taken together with GWG's secure monopoly postion would put GWG in a strong competitive position.

In terms of GWG's growth prospects it appears that GWG is in a position to increase its current level of operations. Energy usage is highly correlated with the overall level of economic activity. Both the NEB and the Bank of Montreal have predicted that Manitoba's rate of economic growth (as measured by real gross domestic product ("GDP")) will be among the highest in Canada over the next two years and the NEB is forecasting above average rates of increase in real GDP through the turn of the century (see Appendix 10). The NEB anticipates that the high level of economic activity in Manitoba will translate into annual growth of approximately 1.8% in the combined energy demand of the residential, commercial and industrial sectors (see Appendix 11), with natural gas maintaining its share of this growing energy market (see Appendix 12). However, a significant portion of Manitoba's GDP growth is expected to result from the continuing development of the Province's abundant northern hydro-electric potential, with only a spill-over effect for metropolitan Winnipeg. As in the past this may tend to reduce the rate of increase in demand for natural gas from what would otherwise be expected.

GWG also appears to have a reasonable potential for growth by expanding its operations beyond the limits of its current market area, perhaps in concert with its sister company ICGUM. The extensions of the current distribution system frequently mentioned are:

(i) a southwest extension - running south of the TransCanada pipeline and connecting Souris and Melita;

(ii) a northern extension - connecting Dauphin to The Pas and Thompson;

(iii) a Pembina Valley extension - connecting Gretna, Reinland and Schanzenfeld; and

(iv) an extension connecting Pine Falls, Powerview, Lac du Bonnet and Pinawa.

Due to the uncertainty regarding the costs and benefits of proceeding with a major expansion of the system we expect investors to attribute only a very small premium, if any, to GWG's multiple in recognition of these opportunities.

We believe GWG's growth prospects are at least as strong as those of other utilities. GWG's policy of making annual additions to its property, plant and equipment base at the rate of approximately 7.7% per year supports this conclusion, although GWG's history of above average dividend payouts suggests slower growth than would otherwise be expected (see Appendix 13). On balance we believe investors would regard GWG's growth prospects as at least as favourable as those of the comparable utilities.

There are some risks, however. We believe that some investors might discount GWG's multiple relative to the multiples of comparative regulated companies on the basis that there is some risk that GWG's returns could be adversely affected by regulatory action. With the deregulation of gas pricing there may be a perception that the Public Utilities Board of

Manitoba (the "PUB") may not be willing to pass on "above market" prices in the form of higher tariffs especially if it believes that such prices are the result of ineffective negotiating on the part of GWG. This risk is exemplified by the current PUB order to GWG to renegotiate its gas contract with TransCanada PipeLines Limited to seek a lower price.

A further factor which may cause some investors to discount GWG's multiple (and the multiple of natural gas utilities generally) is the overall atmosphere of uncertainty that deregulation of the natural gas industry has induced, notably with regard to security of gas supplies. The diverse interests, and frequent and well-publicized conflicts of interest arising among various industry participants may cause investors to view natural gas utilities as riskier than they were prior to deregulation and riskier than other fully regulated utilities.

In terms of financial position, the percentage of debt in GWG's capital structure appears high relative to the comparative companies. This is reflected by GWG's interest coverage ratios which are significantly lower than those of the majority of the comparative companies. GWG's relatively high levels of long-term debt are offset somewhat by the fact that GWG has no preferred shares in its capital structure. Preference shares issued by utilities are generally not convertible into common shares and have many of the same characteristics as debt. GWG's leverage ratios compare favourably to the comparative companies when preference shares are treated as debt. However, GWG's interest and dividend coverage ratios are slightly lower than similar ratios for the comparative companies. GWG's five-year average leverage and coverage ratios are more favourable than its 1986 ratios. This is principally because of long-term debt added during 1986 and a reduction in 1986 earnings caused by an abnormally warm winter.

When analyzing a company's financial position, investors would also consider the size of the company using such measures as size of revenues and assets. GWG would be considered to be slightly more risky than the comparative companies in this regard. The above discussion leads us to

expect that investors would discount the multiple that would be applied to the book value of GWG's equity slightly on the basis of its comparative financial position.

The book value of a regulated company's assets, in most cases, has a very close correlation with the rate base from which allowable returns are derived. It is this relationship that makes net book value useful in valuing a regulated company. In Canada the predominant method for calculating rate base is the future test year method. The future test year method calculates the current year's rate base on the basis of projected average values for the coming year. Since certain items, notably property plant and equipment, tend to increase each year, a rate base calculated on a future test year basis tends to exceed the then current capitalization. The prior test year method, on the other hand, determines the current year's rate base based on financial results from the past year. As a result additions to property plant and equipment and other accounts are excluded from the rate base although they are included in capitalization.

Within Canada, only the PUB employs the prior test year method in determining rate base. Based solely on this consideration and the fact that no offsetting regulatory benefits are evident we believe that investors would discount the multiple that they would apply to the book equity of GWG for this factor. This discount would be quite small, however, as the difference between capitalization and rate base in any year tends to be relatively small.

Although we expect GWG to achieve stable cash flows, to continue to enjoy a solid competitive position and to realize growth in sales we expect that GWG would trade at a multiple of book value slightly lower than the average multiples currently being accorded to comparative companies due to its smaller size and slightly weaker financial position, potential regulatory risk and the uncertainty surrounding industry deregulation. Based on these considerations we would expect investors currently to apply a premium of 1.35 to 1.45 to GWG's net book equity.

(B) ICG Utilities (Manitoba) Ltd.

In terms of profitability, ICGUM has performed poorly relative to the comparative companies as it has earned a return on equity of less than one-third of the average over the past five years. While returns have improved in the last two years, largely as a result of the merger with Plains-Western (Man.) Ltd., in our view potential purchasers would significantly reduce the premium to book value of equity that they would be willing to pay as a result of ICGUM's history of profitability.

As outlined in the discussion regarding the stability of GWG's cash flows, if levels of demand can be accurately estimated the method by which tariffs are determined should result in relatively predictable cash flows. As can be seen by a review of Appendix 6, the variability in the volume of gas sales by ICGUM appears to be comparable to the other regulated utilities leading to the conclusion that ICGUM's cash flows are relatively dependable.

With regard to ICGUM's competitive position the same factors that were outlined in the discussion of GWG will also influence ICGUM. ICGUM's natural gas distribution monopoly in southwestern Manitoba appears secure and, as outlined earlier, we believe the competitive position of natural gas vis à vis other fuels to be well established. With regard to ICGUM's growth prospects, the forecast increases in GDP may also result in benefits to the utility in the form of increased gas consumption. However, due to the largely rural nature of ICGUM's market ICGUM may not realize increases of the same magnitude as GWG. We expect that potential investors would treat ICGUM as essentially comparable to other regulated companies in these regards.

In terms of financial position, ICGUM's coverage ratios are low relative to those for the comparable companies when compared on the basis of both interest coverage and interest plus dividend coverage. The amount of debt in ICGUM's capital structure is high relative to the majority of the regulated companies when preference shares are treated as equity and also

when preference shares are treated as debt. The relatively high financial risk which we believe would be attributed to ICGUM would be compounded by its very small size.

Overall, ICGUM's size, financial position and history of low profitability as well as the potential regulatory risk and the uncertainties surrounding deregulation would all act to reduce the multiple of book value that investors would be willing to pay for the shares of ICGUM. It is our view that the magnitude of the multiple would be in the range of 1.10 to 1.25.

On the basis of the above discussion we believe that investors would value the equity of GWG at $67 million to $72 million and would value the equity of ICGUM at $9 million to $11 million (see Appendix 14). We believe that investors would attribute nominal additional value to the combined operations of GWG and ICGUM and we would therefore attribute a stock market value of $76 million to $83 million to the equity of Manitoba Consumers Gas Corp. using a multiple of net book value approach.

Dividend Yield

Another common method for deriving the stock market value for the equity of a regulated company is to discount expected future dividends to perpetuity. This method is based on the fact that a company's only distribution to its common shareholders is in the form of dividends. Investors view the current stock price as the present value of the stream of expected future dividend payments. Regulated companies are commonly valued using this approach because of their relatively stable growth and the relative ease of predicting future dividend levels. We believe that Manitoba Consumers Gas can also be appropriately valued using this approach.

The appropriate discount rate to be applied to the dividend stream is a function of the cost of equity adjusted for the expected rate of dividend growth. If dividend growth levels are relatively constant this discount rate is a direct function of the expected dividend yield. Prospective dividend yields can readily be estimated on the basis of expected dividend levels and current stock trading values.

An appropriate dividend yield for Manitoba Consumers Gas can be determined by assuming an average level of earnings retention and by adjusting the average dividend yield of the comparative companies to reflect the relative risk of Manitoba Consumers Gas. The future dividend levels to be paid by Manitoba Consumers Gas were derived on the basis of the estimated level of earnings for the Company and the assumed earnings retention rate.

Outlined in Appendix 15 are the dividend yields of the comparative companies. Dividends one year into the future were estimated on the basis of current dividend levels and expected growth rates. Growth rates were estimated based on 1986 retention rates and 1986 returns on equity. The average estimated dividend yield for the comparative companies is currently approximately 6.6%. An average earnings retention rate of 35.3% was associated with this average dividend yield.

On the basis of our earlier discussion concerning the relative risks of GWG and of ICGUM, we would expect Manitoba Consumers Gas to trade at multiples lower than the multiples currently being accorded to the comparative companies primarily because of its smaller size, slightly weaker financial position and potential regulatory risk and the uncertainty caused by industry deregulation. Based on these considerations, we would expect investors to require a dividend yield of 6.6% to 7.0% from Manitoba Consumers Gas, assuming an average earnings retention rate of 35.3%

Earnings are directly related to the allowable level of return and the size of the underlying rate base. Appendix 16 outlines our estimate of the expected size of the rate base for Manitoba Consumers Gas Corp. in 1987. Assuming an equity component of 40% results in a value of the equity of the Company of approximately $59 million from which earnings can be derived.

Allowable tariff levels for most regulated companies are designed to make possible a specified return to equity holders after covering all costs of service and interest costs. In this regard, GWG is currently allowed a return on equity of 14.25% and ICGUM, a return on equity of 13.75%. GWG is

scheduled to appear before the PUB in the near future for a review of allowable returns. Recent rate decisions have allowed comparative regulated companies rates of return on equity of approximately 12.5% to 14% (see Appendix 4). We believe that considerable uncertainty currently exists concerning the return on equity which GWG will be allowed at its upcoming rate hearing and that investors would apply a range of allowable returns to determine estimated earnings. Based on recent rate decisions for comparative regulated companies we believe that investors would project the allowable returns for Manitoba Consumers Gas Corp. to be in a range of 13% to 13.75%. We have therefore applied a range of returns of 13% to 13.75% to the estimated equity component of the rate base to produce a range of values for the equity of Manitoba Consumers Gas Corp.

On the basis of the above discussion we believe that investors would value the equity of Manitoba Consumers Gas Corp. at $70 million to $79 million using a dividend yield approach (see Appendix 17).

Earnings Multiple

Another method of deriving a stock market value involves the application of a multiple to a company's maintainable earnings as a simplistic proxy for the more detailed approaches described above. Multiples would be applied to the level of earnings obtained in 1986 and the levels expected in 1987 and beyond.

In determining the multiples to be applied to GWG and ICGUM's earnings, investors would be influenced by the multiples the market applies to the earnings of comparative regulated companies. We believe that most investors would be more inclined to compare GWG and ICGUM to relatively pure utilities rather than specifically to other gas utility companies because of the propensity within the gas utility industry to diversify operations into other non-regulated businesses.

Appendix 18 outlines historical and current price to earnings multiples for comparative regulated companies. As discussed on pages 6 to 11, we would expect GWG to trade at a slight discount relative to the comparative regulated companies and ICGUM to trade at a substantially larger discount. Together, we would expect the two companies to be valued at approximately 10 times 1986 earnings and 9.5 times 1987 estimated earnings.

The combined earnings of GWG and ICGUM in 1986 were considerably below historical levels, largely because of the decrease in GWG's earnings due to weather and other factors (see Appendix 19). In our view 1986 combined earnings are not representative of Manitoba Consumers Gas Corp.'s maintainable earnings. We believe that investors would base their analysis on forecast 1987 earnings rather than on 1986 earnings. Earnings in 1987 were derived in the same manner as that used to apply the dividend yield method resulting in a value of approximately $72 million to $77 million for Manitoba Consumers Gas Corp. using an earnings multiple approach (see Appendix 20).

Discounted Cash Flow

Another method of valuing ICGUM and GWG would involve calculating the present value of the future cash flows generated by Manitoba Consumers Gas Corp. This method is generally less widely used in valuing the equity of regulated companies than the approaches outlined above, principally because of investor discomfort with making the assumptions necessary to project future corporate cash flows and the resulting potential for error. We would expect investors to accord very little weight, if any, to this approach but would rather use it as a check of the other methods described above.

In applying a cash flow valuation, we believe an investor would focus on the stream of future free cash flows where free cash flow is treated as a proxy for the cash which is available to be paid as dividends to equity holders. For this purpose, we will define free cash flow as the cash

generated by a subject company after provisions for all cash taxes, interest, capital expenditures, changes in working capital, changes in equity and debt repayment.

We have developed a computer model designed to generate cash flow streams for the combined operations of GWG and ICGUM using various assumptions. In determining an appropriate free cash flow stream we have utilized historic financial and operating data of both GWG and ICGUM along with general economic and industry forecasts. We have also had discussions with Samson Belair regarding the reasonableness of the assumptions used to estimate future cash flows and have analyzed various projections provided to us.

Outlined in Appendix 21 are balance sheets for the years 1985 and 1986 for both GWG and ICGUM. Appendix 22 outlines a pro forma 1986 balance sheet for Manitoba Consumers Gas Corp.

The model was also used to test the sensitivity of the results to changes in allowed returns and other factors. The following principal assumptions were made to generate the cash flow streams:

(i) each year's rate base was calculated on the basis of financial data for the preceding year. This method is consistent with the "historical test year" approach used by the PUB during its rate hearings for both GWG and ICGUM. Rate base was defined as the sum of GWG's and ICGUM's combined average accumulated total investment and the estimated working capital allowance for rate base purposes less average total accumulated depreciation and customers' contributions in aid of construction;

(ii) each year a depreciation rate of approximately 3.8% of the average net cost of property, plant and equipment was calculated. This level of depreciation was based on average historic ratios as outlined in Appendix 23;

(iii) each year a working capital allowance for rate base purposes was calculated as approximately 11.7% of the level of such year's rate base. This relationship was estimated on the basis of historic ratios of allowable working capital levels to allowable rate base levels as outlined in Appendix 24;

(iv) each year, non-cash working capital for book purposes (gross of short-term debt) was calculated as approximately 1.4 times earnings for the year. This multiple was based on 1985 and 1986 results;

(v) a capital structure consisting of 60% debt and 40% equity;

(vi) a general inflation factor of 4.0%; and

(vii) free cash flows beyond 2015 were estimated by calculating a terminal value equal to the free cash flow in 2015 discounted to perpetuity at the required rate of return.

As discussed previously, because of the uncertainty which currently exists regarding the return on equity which GWG will be allowed at its upcoming rate hearing we believe that investors would apply a range of allowable returns to derive an estimated free cash flow stream. We have therefore applied a range of returns of 13% to 13.75% to our cash flow model to produce a range of values for the equity of Manitoba Consumers Gas Corp.

The free cash flow stream was discounted at the investor's required rate of return, which is defined as the return required by the market place for a risk-free investment, plus a risk premium to reflect the expected stock market return in excess of the risk-free rate and the risk related to an individual company that cannot be avoided by diversifying one's portfolio. This required rate of return is equal to a company's cost of equity (Ke) which can be estimated by using the capital asset pricing model (the "CAPM"). The CAPM assumes that only market related risk, as defined by a company's Beta (B), is relevant to investors and that investors base their required rate of return on the following relationship:

$$Ke = R_f + B * (R_m - R_f)$$

where R_f is the risk free rate; and
R_m is the market return.

(a) Risk free rate

The current yield on Government of Canada T-Bills is a proxy for the risk free rate. The current yield on 90 day T-Bills is approximately 8.3%.

(b) Beta

Manitoba Consumers Gas Corp.'s operations are subject to many of the same risks as those experienced by regulated companies in the oil pipeline, gas pipeline, gas utility, electric utility and telephone industries and therefore Manitoba Consumers Gas Corp.'s Beta should be close to the average Beta of these industries. The historical average Beta for oil pipelines is 0.61, for gas pipelines 0.78, for gas utilities 0.44, for electric utilities 0.48, for telephone companies 0.55 and for all such companies 0.57 (see Appendix 25). The historical average Beta of the comparable companies was 0.52. For purposes of estimating Manitoba Consumer Gas Corp.'s Beta we believe it is appropriate to use a Beta close to the overall historical average for the regulated industries. Accordingly, we have used a Beta of 0.60 in our calculations.

(c) Market return

Market return is typically estimated based on a spread above the risk free rate (the "market risk premium"). A 1985 study performed by James Hatch and Robert White of the University of Western Ontario concluded that the average Canadian market risk premium during the period 1950 to 1983 was approximately 7% to 8%. Generally, market risk premiums of 5% to 8% are applied to the CAPM to determine an appropriate cost of equity.

Wood Gundy periodically estimates the spot return on the market by forecasting to perpetuity the dividend stream to be paid by stocks trading on the TSE, relating this stream to current stock prices and solving for market return. Using this technique, a current market return of 10.7% was derived representing a market risk premium of 2.4%.

We believe that investors would be inclined to place some weight on historical market risk premiums along with the estimated spot premium primarily because of the historically low spread that currently exists. We have applied a range of market risk premiums of 4% to 6% to the CAPM to determine an appropriate discount rate to reflect the ranges which we believe would be applied by investors.

Using a Beta of 0.60 we derived a cost of equity for Manitoba Consumers Gas Corp. of 10.7% to 11.9% (see Appendix 26). On this basis we have discounted future free cash flow streams at estimated required rates of return of 10.5% to 12.0%.

The underlying assumptions used to derive the cash flow stream were based on the premise that GWG and ICGUM will continue to operate in a manner similar to that in which they have operated in the recent past.

Capital expenditure levels projected by ICG for GWG and ICGUM for the years 1987 to 1996 and increasing thereafter at the rate of inflation were felt to be appropriate. This level of expenditures is indicative of past experience and is consistent with our estimates of the future growth rates of GWG and ICGUM.

The free cash flow streams generated under these assumptions resulted in a range of values for the equity of GWG and ICGUM of approximately $63 million to $83 million (see Appendix 27). The cash flow stream associated with a 13.25% allowed return on equity and an 11% discount rate is outlined as an example in Appendix 28.

Because free cash flow is based on a return on rate base, we would not expect the value of Manitoba Consumers Gas Corp. to change significantly with changes in gas sales levels, as long as these changes were not dramatic. If gas sales were reduced significantly, for example, tariffs would have to be raised significantly in order to maintain returns. At some point, the increased costs might no longer be passed on to the utility customers. Within a reasonable range, however, this should not be a problem.

Minor increases or decreases in the level of capital expenditures would not have a material impact on our discounted cash flow values. We would expect most investors to attribute only a small incremental value to the expansion opportunities available to Manitoba Consumers Gas primarily because of the uncertainty regarding the costs and benefits of proceeding with a major expansion of the system.

Control Premium

The valuation approaches outlined above provide estimates of stock market trading values for Manitoba Gas Corp. As such, these values reflect a discount for minority holdings and would not represent the values at which a willing buyer and a willing seller would likely enter into a transaction for all or a large majority of the shares of Manitoba Consumers Gas Corp.

Trading value discounts reflect the fact that minority shareholders do not have direct access to corporate cash flow, control over corporate strategy, direct access to tax planning opportunities or other benefits often available to controlling shareholders. Typically, the value of these factors is referred to as a control premium. Historically, control premiums have often ranged between 30% and 40%. However, control premiums on recent transactions in Canada have averaged considerably less, in the 20% - 25% range, probably because of the large, recent increase in share trading values. Within the broad range of control premiums, the premium which would be applied to any particular company's trading value would depend upon the ability of potential buyers to realize certain benefits through the purchase of a majority of such company's shares.

Historically, control premiums in transactions involving the purchase of a utility have been in the lower end of the above ranges. We attribute these lower premiums to the fact that potential benefits from gaining access to corporate cash flow, from gaining access to corporate tax planning opportunities and from other factors for a utility are not as significant as for companies in other industries because of utilities' relatively high payout rates and regulated operations.

We believe that the control premium which should be applied in determining an aggregate value for the shares of Manitoba Consumers Gas Corp. should be in the 15% - 20% range in the context of the above discussion and would reflect factors such as (i) the potential for operating synergies; (ii) the potential for expansion; and (iii) the potential for a change in the "historical test year" approach to determining returns.

Valuation Summary

The following table sets out a summary of our estimates of the value of the shares of Manitoba Consumers Gas Corp.

		Stock market trading value	Aggregate value(1)
		(millions)	
(i)	multiple of net book value	$76 - $83	$87 - $100
(ii)	dividend yield	$70 - $79	$81 - $ 95
(iii)	earnings multiple	$72 - $77	$83 - $ 92
(iv)	discounted cash flow	$63 - $83	$72 - $100

Note:

(1) Values based on a 15% - 20% premium over stock market trading value.

Based on our according the greatest weight to the multiple of net book value and dividend yield approches and very little weight to the other approaches we estimate the value of the shares of Manitoba Consumers Gas Corp. at approximately $87 million to $93 million.

The estimate of market value contained in this report is based on the value which we believe would be attributed to the Company by a private sector purchaser on the basis of the Company's existing operations and prospects without incorporating the effects of any grants or subsidies from external sources. A price of $87 million to $93 million would be reflective of the commercial realities of an investment in the Company and as such the payment of a purchase price in this range by the Province of Manitoba would appear to provide the basis for a sound investment, all subject to the accuracy and completeness of the information provided to us.

The above range of values does not specifically incorporate various benefits which could be available to the Province of Manitoba as a result of its governmental position and interests. These benefits might be derived from factors such as:

(i) the potential for lower regulatory risk;
(ii) the potential for lower borrowing costs;
(iii) potential economies of scale;
(iv) the potential for realizing certain tax benefits; and
(v) increased potential to secure natural gas at lower prices.

MANITOBA CONSUMERS GAS CORP.

Historical Book Values Per Share(1)

Company(2)	1981	1982	1983	1984	1985	1986
Newfoundland Light & Power	$ 9.96	$ 10.91	$ 11.97	$ 12.93	$ 13.97	$ 14.80
Maritime Telephone & Telegraph	8.34	8.87	9.45	10.15	10.85	11.59
NewTel Enterprises (telephone holding company)	9.72	10.19	10.90	11.59	12.39	13.17
TransAlta Utilities	15.41	15.91	17.28	18.83	19.93	18.97
Quebec Telephone	7.12	7.44	8.03	8.54	9.03	9.32
Pacific Northern Gas	11.70	13.51	15.06	16.46	15.76	16.41
Canadian Utilities	8.59	9.82	10.57	11.36	12.21	12.89

Note:

(1) Based on year-end book values.
(2) These companies were selected by Dr. Gordon Elliot of Wood Gundy Research as representative of purely regulated utilities.

MANITOBA CONSUMERS GAS CORP.

Historical Price to Book Values(1)(2)

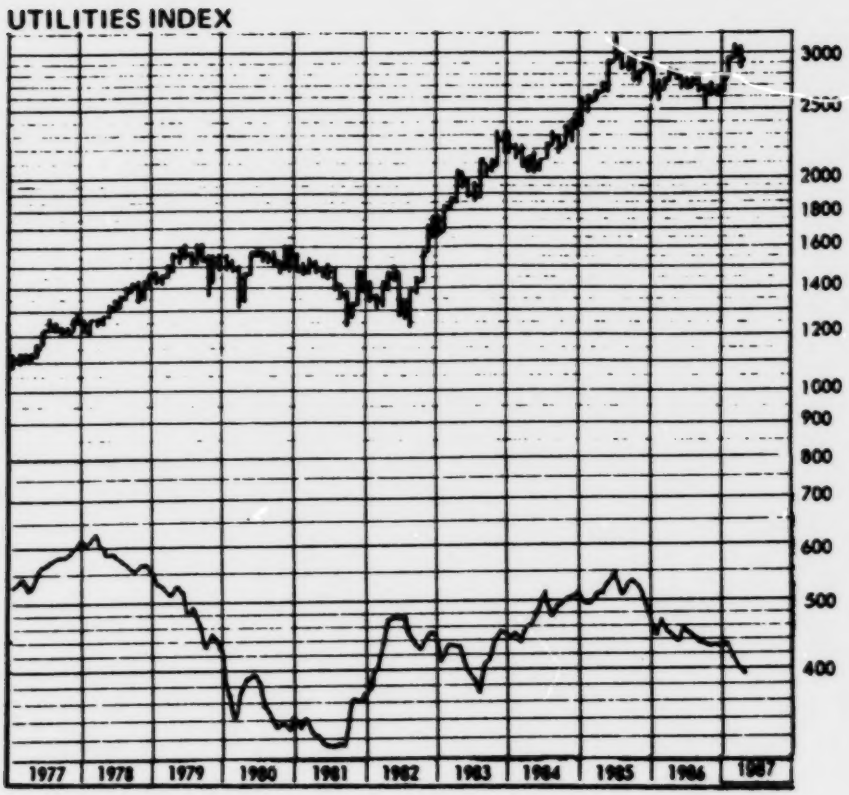
Company	1981	1982	1983	1984	1985	1986
Newfoundland Light & Power	1.00	1.10	1.21	1.22	1.24	1.23
Maritime Telephone & Telegraph	0.88	1.01	1.23	1.40	1.41	1.32
NewTel Enterprises (telephone holding company)	1.08	1.12	1.33	1.29	1.42	1.26
TransAlta Utilities	1.13	1.38	1.23	1.29	1.39	1.52
Quebec Telephone	0.84	0.92	1.25	1.32	1.59	1.54
Pacific Northern Gas	0.94	1.05	0.98	1.00	1.27	1.26
Canadian Utilities	1.27	1.60	1.49	1.50	1.58	1.47
Average	**1.02**	**1.17**	**1.25**	**1.29**	**1.41**	**1.37**

Note:

(1) Based on the closing prices for the above companies in each of the respective years.
(2) Based on year end book values.

MANITOBA CONSUMERS GAS CORP.

Graphoscope



Source: Graphoscope, May 1987, Issue 199.

Appendix 2

MANITOBA CONSUMERS GAS CORP.

Price to Book Value

Company	1986 Book value(1)	Price(2)	Price to book value
Newfoundland Light & Power	$ 14.80	$ 20.25	1.37x
Maritime Telephone & Telegraph	11.59	15.625	1.35
NewTel Enterprises (telephone holding company)	13.17	17.00	1.29
TransAlta Utilities	18.97	29.50	1.56
Quebec Telephone	9.32	14.875	1.60
Pacific Northern Gas	16.41	22.25	1.36
Canadian Utilities	12.89	20.375	1.58
Average			**1.44**

Note:

(1) Based on year-end book values.
(2) Closing price as at July 3, 1987.

MANITOBA CONSUMERS GAS CORP.

Interest Coverage

	Five-year average	1986	1985
Newfoundland Light & Power	3.4x	3.1x	3.2x
Maritime Telephone & Telegraph	3.3	3.0	3.2
NewTel Enterprises (telephone holding company)	3.7	3.5	4.2
TransAlta Utilities	3.6	3.2	4.3
Quebec Telephone	4.1	5.0	4.8
Pacific Northern Gas	2.1	2.1	2.3
Canadian Utilities	4.4	4.5	4.8
Average	**3.5**	**3.5**	**3.8**
Greater Winnipeg Gas(1)	3.1	2.2	3.1
ICG Utilities (Manitoba)	1.6	1.7	1.4

Note:

(1) In 1986 Greater Winnipeg Gas changed its accounting policy with respect to the recognition of gas sales revenues. Interest coverage has been calculated in this table using net income before tax as was reported in 1986 under the new policy and as would have been reported in 1985 had the same policy been followed. Under the old accounting policy interest coverage in 1986 and 1985 would have been 2.6x and 3.6x respectively.

MANITOBA CONSUMERS GAS CORP.

Interest and Preferred Dividend Coverage

	Five-year average	1986	1985
Newfoundland Light & Power	2.3x	2.3x	2.3x
Maritime Telephone & Telegraph	2.7	2.7	2.6
NewTel Enterprises (telephone holding company)	2.9	2.6	4.2
TransAlta Utilities	2.1	2.0	2.2
Quebec Telephone	3.5	4.5	4.0
Pacific Northern Gas	1.9	1.9	2.1
Canadian Utilities	1.9	2.2	1.8
Average	**2.5**	**2.6**	**2.7**
Greater Winnipeg Gas(1)	3.1	2.2	3.1
ICG Utilities (Manitoba)	1.6	1.7	1.4

Note:

(1) In 1986 Greater Winnipeg Gas changed its accounting policy with respect to the recognition of gas sales revenues. Interest coverage has been calculated in this table using net income before tax as was reported in 1986 under the new policy and as would have been reported in 1985 had the same policy been followed. Under the old accounting policy interest and preferred dividend coverage in 1986 and 1985 would have been 2.6x and 3.6x respectively.

MANITOBA CONSUMERS GAS CORP.

Interest Coverage Ratios(1)

	1981	1982	1983	1984	1985	1986	Five-year average(3)
Telephone companies							
Bell Canada	3.5x	3.7x	4.6x	4.5x	4.6x	4.6x	4.4x
B.C. Telephone	2.6	2.4	2.7	2.4	2.7	3.3	2.7
Island Telephone	3.2	3.3	3.4	3.6	3.5	3.2	3.4
Maritime Tel. & Tel.	3.0	3.3	3.5	3.4	3.2	3.0	3.3
New Brunswick Telephone	3.5	3.8	4.0	4.2	4.1	3.8	4.0
NewTel Enterprises	2.8	3.1	3.5	4.0	4.2	3.5	3.7
Quebec Telephone	3.1	3.1	3.7	3.9	4.8	5.0	4.1
Average	3.1	3.3	3.6	3.7	3.9	3.8	3.7
Electric distribution companies							
Maritime Electric Company	2.7	2.5	3.0	3.2	3.3	3.6	3.1
Newfoundland Light & Power	3.2	3.8	3.7	3.4	3.2	3.1	3.4
TransAlta Utilities Corporation	3.3	3.1	3.5	4.1	4.3	3.2	3.6
Average	3.1	3.1	3.4	3.6	3.6	3.2	3.4
Pipeline companies							
Alberta Natural Gas	12.7	4.7	6.0	7.3	8.9	5.3	6.4
Interprovincial Pipe Line	4.2	5.6	6.3	7.5	5.5	4.9	6.0
NOVA, An Alberta Corporation	1.8	1.6	1.7	1.9	2.1	1.9	1.8
TransCanada PipeLines	1.7	1.5	1.9	1.9	2.1	1.7	1.8
Westcoast Transmission	3.0	2.4	2.2	2.3	2.3	2.1	2.3
Average	4.7	3.2	3.6	4.2	4.2	3.5	3.7
Gas distribution companies							
Canadian Utilities	3.1	3.8	4.6	4.8	4.8	4.5	4.5
Canadian Western Natural Gas	2.9	4.0	3.8	4.5	5.6	4.9	4.6
Northwestern Utilities	3.1	4.0	3.4	3.7	5.0	4.1	4.0
Consumers' Gas	2.0	2.4	2.4	2.9	2.9	2.7	2.7
Noverco	1.6	1.9	2.3	2.8	2.2	2.2	2.3
Inland Natural Gas	3.4	2.7	3.1	2.2	2.2	2.2	2.5
Inter-City Gas	1.3	1.1	1.5	1.7	1.7	1.7	1.5
ICG Utilities (Ontario)	1.9	2.0	2.1	1.8	2.0	1.9	2.0
Union Enterprises	2.0	2.0	2.6	2.8	2.5	n.a.	2.4
Average	2.5	2.7	2.9	3.0	3.2	3.0	3.0
Greater Winnipeg Gas(2)	n.a.	3.8	3.4	3.0	3.1	2.2	3.1
ICG Utilities (Manitoba)	0.5	1.0	1.6	2.3	1.4	1.7	1.6

Notes:

(1) Interest Coverage is calculated as net income before extraordinary items plus income taxes and interest expense on long term and short term debt and amortization, divided by reported interest expense on long term and short term debt plus amortization.

(2) In 1986 Greater Winnipeg Gas changed its accounting policy with respect to the recognition of gas sales revenue. Had no change occurred interest coverage in 1986 would have been 2.6x.

(3) Based on last five years of available data.

MANITOBA CONSUMERS GAS CORP.

Long-term debt to
long-term debt plus equity(1)

	1986	1985
Newfoundland Light & Power	0.43	0.45
Maritime Telephone & Telegraph	0.50	0.48
NewTel Enterprises (telephone holding company)	0.51	0.47
TransAlta Utilities	0.34	0.35
Quebec Telephone	0.34	0.35
Pacific Northern Gas	0.42	0.56
Canadian Utilities	0.34	0.29
Average	**0.41**	**0.42**
Greater Winnipeg Gas(2)	0.56	0.48
ICG Utilities (Manitoba)	0.62	0.67

Note:

(1) Assuming equity includes common equity, preference shares and retained earnings and long-term debt includes the current portion thereof.

(2) In 1986 Greater Winnipeg Gas changed its accounting policy with respect to the recognition of gas sales revenue. Leverage has been calculated in this table using equity as was reported in 1986 under the new policy and as would have been reported in 1985 had the same policy been followed. Under the old policy leverage in 1986 and 1985 would have been .59 and .52 respectively.

MANITOBA CONSUMERS GAS CORP.

Long-term debt plus preferred shares to
long-term debt plus preferred shares plus equity(1)

	1986	1985
Newfoundland Light & Power	0.57	0.58
Maritime Telephone & Telegraph	0.57	0.58
NewTel Enterprises (telephone holding company)	0.51	0.47
TransAlta Utilities	0.61	0.61
Quebec Telephone	0.40	0.43
Pacific Northern Gas	0.62	0.65
Canadian Utilities	0.69	0.68
Average	**0.57**	**0.57**
Greater Winnipeg Gas(2)	0.56	0.48
ICG Utilities (Manitoba)	0.62	0.67

Note:

(1) Assuming equity includes common equity and retained earnings and long-term debt includes the current portion thereof.

(2) In 1986 Greater Winnipeg Gas changed its accounting policy with respect to the recognition of gas sales revenue. Leverage has been calculated in this table using equity as was reported in 1986 under the new policy and as would have been reported in 1985 had the same policy been followed. Under the old policy leverage in 1986 and 1985 would have been .59 and .52 respectively.

MANITOBA CONSUMERS GAS CORP.

Review of Current Capital Structures(1)

	Short-term debt	Long-term debt	Deferred taxes	Pref. share equity	Common share equity
Telephone Companies					
Bell Canada	0.0%	36.9%	9.4%	5.3%	48.3%
B.C. Telephone	2.1	39.5	16.4	7.7	34.3
Island Telephone	0.5	41.2	14.0	7.5	36.9
Maritime Tel. & Tel.	0.0	44.4	15.7	3.5	36.4
New Brunswick Telephone	0.9	38.4	13.7	0.0	47.0
NewTel Enterprises	2.3	43.9	10.7	0.0	42.8
Quebec Telephone	3.9	28.7	15.2	4.0	48.2
Average	1.4	39.0	13.6	4.0	42.0
Electric Distribution Companies					
Maritime Electric Company	0.0	37.8	9.1	12.0	41.1
Newfoundland Light & Power	6.8	40.2	2.9	11.5	38.5
TransAlta Utilities Corporation	2.0	34.4	0.7	25.2	37.7
Average	2.9	37.5	4.2	16.2	39.1
Pipeline Companies					
Alberta Natural Gas	4.9	31.7	9.4	0.0	54.0
Interprovincial Pipe Line	2.1	33.8	18.0	0.0	46.1
NOVA, An Alberta Corporation	5.1	58.5	1.3	19.7	15.4
TransCanada Pipe Lines	0.0	48.1	8.2	9.2	34.4
Westcoast Transmission	3.3	43.2	17.8	6.4	29.2
Average	3.1	43.1	10.9	7.1	35.8
Gas Distribution Companies					
Canadian Utilities	1.0	33.2	0.8	34.8	30.3
Canadian Western Natural Gas	8.2	34.3	0.0	23.8	33.8
Northwestern Utilities(2)	3.2	37.2	0.0	26.5	33.1
Consumers' Gas	10.6	45.6	2.3	7.3	34.2
Noverco	0.0	48.2	0.0	12.8	37.0
Inter-City Gas	7.3	64.7	6.4	5.3	16.4
ICG Utilities (Ontario)	2.2	54.5	0.0	5.5	37.7
Inland Natural Gas	9.6	51.9	8.2	6.5	23.8
Union Enterprises	7.5	38.8	19.6	8.6	25.4
Average	5.5	45.4	4.1	14.6	30.2
Overall Average	3.5	42.1	8.3	10.1	35.9
Greater Winnipeg Gas	1.7	55.9	0.0	0.0	42.4
ICG Utilities (Manitoba)	4.1	59.0	0.0	0.0	36.9

Notes:

(1) Current Capital Structures are calculated on data available as of the 1986 fiscal year-end. Long term debt includes the current portion thereof.

(2) Based on 1985 fiscal year-end.

MANITOBA CONSUMERS GAS CORP.

Comparative Size Statistics

	1986		
	Revenues	Net fixed assets (000's)	Total assets
Newfoundland Light & Power	$ 245,427	$ 326,301	$ 366,706
Maritime Telephone & Telegraph	336,416	616,717	764,088
NewTel Enterprises	153,115	290,940	362,566
TransAlta Utilities	915,500	3,700,000	3,304,000
Quebec Telephone	182,667	300,037	351,844
Pacific Northern Gas	80,956	100,783	121,234
Canadian Utilities	1,244,802	2,226,993	2,742,993
Average	**416,208**	**1,033,638**	**1,144,775**
Greater Winnipeg Gas	213,730	116,395	161,748
ICG Utilities (Manitoba)	64,596	24,514	33,098

MANITOBA CONSUMERS GAS CORP.

Current Rate of Return Awards by Regulatory Boards in Canada

	Year of decision	Allowed return on common equity (%)	Regulatory environment(1)
Telephone companies			
Bell Canada	1986	12.25-13.25(3)	Forward Looking
B.C. Telephone	1985	13.75-14.75(4)	Forward Looking
Island Telephone	1984	15.00-15.50(5)	Forward Looking
Maritime Tel. & Tel.	1985	15.00	Forward Looking
New Brunswick Telephone	1985	13.50(6)	Forward Looking
Newfoundland Telephone	1982	16.30-17.68(7)	Forward Looking
Quebec Telephone	1986	12.50-13.00	Forward Looking
Average		14.21	
Pipeline companies			
Alberta Natural Gas	1984	15.00	Cost of Service(8)
Consolidated Pipe Lines	1982	16.00	Forward Looking
Interprovincial Pipeline			
Older System	1984	15.25	Forward Looking
Montreal System	1984	0.0	Forward Looking
NOVA, An Alberta Corporation	1986	13.50	Cost of Service(10)
TransCanada PipeLines	1985	13.25(11)	Forward Looking
TransMountain Pipe Line	1986	14.25	Forward Looking(14)
Westcoast Transmission	1986	13.75(12)	Forward Looking(13)
Average		14.43	
Electric distribution companies			
Alberta Power(2)	1987	13.00	Forward Looking
Maritime Electric	1985	15.00-15.50(17)	Forward Looking
Newfoundland Light & Power	1986	13.70-14.20(18)	Forward Looking
TransAlta Utilities	1985	14.50-14.75	Forward Looking
Average		14.21	

	Year of decision	Allowed return on common equity (%)	Regulatory environment(1)
Gas distribution companies			
Canadian Western Natural Gas(2)	1985	12.22-13.48	Forward Looking
Consumers' Gas	1986	14.00(15)	Forward Looking
Gaz Metropolitain	1987	13.80	Forward Looking
Inland Natural Gas	1985	15.00-16.00(16)	Forward Looking
Northwestern Utilities(2)	1987	13.50	Forward Looking
Union Gas Limited	1986	14.75(15)	Forward Looking
Average		14.06	
Greater Winnipeg Gas	1984	14.25	Historical Test Year
ICG Utilities (Manitoba)	1986	13.75	Historical Test Year

Notes:

(1) "Forward Looking" indicates that the regulator is prepared to base decisions on projections of costs and revenues instead of relying on a past test year. "Cost of Service" indicates that by contract the Company recovers its costs in full or that the regulator allows the Company to recover its costs within certain limits.

(2) A subsidiary of Canadian Utilities Limited.

(3) The Canadian Radio-television and Telecommunications Commission based rates on a 12.75% return on common equity.

(4) The Canadian Radio-television and Telecommunications Commission based rates on a 14.25% return on common equity.

(5) The Public Utilities Commission found a return of 15.0% on common equity just and reasonable, dispensed with fixing a lower limit to the rate of return but fixed the upper limit at 15.5%, and based rates on a 15.0% return on common equity, it found the overall average cost of capital to be 12.45-12.66%, converted this return on total capital to a return of 10.43-10.61% on earnings base, and used a return of 10.43% on earnings base in determining the revenue requirement.

(6) The Board of Commissioners of Public Utilities allowed the company to earn a return of up to 1% in excess of the approved rate.

(7) The Board of Directors of Public Utilities used a 17.00% return on average common equity in arriving at the composite cost of average total capital.

(8) For the Company's pipeline operation, the National Energy Board allows the automatic recovery (provided the principles or methods of computation have been approved or the costs are largely outside the control of the Company) of operating expenses (up to the previously approved budget amounts), depreciation, authorized amortization, property and income taxes, together with the allowed return on rate base calculated monthly.

For the Company's other operations, its sales agreements with the purchasers of Natural Gas Liquids (NGL) and ethane provide for the full recovery of all operating expenses, depreciation, property and income taxes, together with a return on the unrecovered investment. In addition, the Company is entitled to 25% of the cumulative net marketing profits arising from the sale of NGL by the buyers on the sale outside Alberta of ethane surplus to ethylene plant requirements.

(9) The Company's transportation contract with Consolidated Natural Gas Limited for the Saskatchewan facility provides that the Company shall be paid transportation charges on a cost of service basis together with an annual return of 11.8% on its investment. The Company's gathering contracts with Alberta producers provide that the Company shall be paid a transportation change comprised of the Company's direct costs and an allowance for overhead costs plus a throughput charge based on produced gas volumes with guaranteed minimum commitments.

(10) The Company's transporation contracts with its major gas transmission customers provide that the Company shall be paid transportation charges on a cost of service basis that includes operating expenses, income and other taxes, and depreciation of its pipeline and plant facilities, together with an annual return on net rate base determined monthly. Upon complaint by any interested party, the rates set by the Company are subject to regulation by the Public Utilities Board.

(11) The National Energy Board deemed the Company's equity ratio to be 30.00%.

(12) The text of this decision has not yet been released.

(13) In May 1985, the National Energy Board changed its method of regulating the Company's tolls from a variable toll to a fixed toll basis, effective January 1, 1986.

(14) The NEB considered rate base to be financed, for rate-making purposes, in the proportions of 50% long-term debt and 50% common equity. It allowed a 13.56% cost of deemed debt and a 15.75% rate of return on deemed common equity.

(15) The Ontario Energy Board treated short-term debt as a residual item to balance rate with capital structure.

(16) The British Columbia Utilities Commission based revenue requirements on a 15.75% return on equity.

(17) The Public Utilities Commission found a return of between 15.0% and 15.5% on average common equity to be appropriate, found the overall average cost of capital to be 12.72-12.92%, and converted this return on total capital to a return of 11.13% to 11.30% on average rate base.

(18) The Board of Commissioners of Public Utilities based rates on a 13.7% return on common equity for 1986.

Source: Benchmarks: Utilities and Pipelines, July 1986. This research publication was prepared by Wood Gundy Inc. and distributed to clients. For this Appendix, we have adapted information from the publication and updated it to reflect information received more recently.

MANITOBA CONSUMERS GAS CORP.

Achieved Rates of Return on Common Equity(1)

	1981	1982	1983	1984	1985	1986	Five-year average(2)
Telephone companies							
Bell Canada	14.0%	14.0%	14.6%	15.6%	14.9%	12.5%	14.3%
B.C. Telephone	13.9	12.7	13.6	11.4	11.8	12.6	12.4
Island Telephone	14.9	15.8	15.5	15.6	15.1	14.2	15.2
Maritime Tel. & Tel.	14.0	16.4	16.1	15.9	14.3	13.8	15.3
New Brunswick Telephone	13.6	15.2	16.0	15.6	13.2	12.3	14.5
NewTel Enterprises	13.4	15.2	15.1	15.5	15.2	13.6	14.9
Quebec Telephone	14.4	15.5	17.1	15.0	15.0	13.2	15.2
Average	14.0	15.0	15.0	14.9	14.2	13.2	14.5
Electric distribution companies							
Maritime Electric Company	11.9	17.1	15.9	16.0	15.5	15.5	16.0
Newfoundland Light & Power	15.4	17.0	17.0	15.6	15.2	14.0	15.8
TransAlta Utilities Corporation	15.7	17.2	16.7	16.0	15.2	13.9	15.8
Average	14.3	17.1	16.5	15.9	15.3	14.5	15.9
Pipeline companies							
Alberta Natural Gas	23.8	23.2	28.1	24.2	25.1	12.8	22.7
NOVA, An Alberta Corporation	16.6	13.7	10.6	11.2	7.4	4.3	9.4
TransCanada PipeLines	16.6	18.8	19.2	18.8	17.4	8.8	16.6
Westcoast Transmission	15.5	14.6	13.1	12.0	11.6	8.4	11.9
Interprovincial Pipe Line	21.9	26.3	23.7	19.5	18.7	15.2	20.7
Average	18.9	19.3	18.9	17.1	16.0	9.9	16.3
Gas distribution companies							
Canadian Utilities	17.8	18.4	15.9	17.1	16.0	17.3	16.9
Canadian Western Natural Gas	17.3	23.1	16.7	21.4	23.9	29.4	22.9
Northwestern Utilities	18.7	26.3	14.7	17.3	26.8	25.1	22.0
Consumers' Gas	23.0	19.1	15.6	16.7	16.7	13.5	16.7
Noverco	13.0	13.9	19.9	17.3	16.6	16.1	16.8
Inland Natural Gas	16.5	13.6	13.6	16.2	19.4	16.7	15.9
Inter-City Gas	7.1	5.8	8.1	11.9	14.7	10.5	10.2
ICG Utilities (Ontario)	7.8	10.1	10.4	10.0	12.4	11.5	10.9
Union Enterprises	10.5	8.9	13.2	12.3	8.7	n.a.	10.7
Average	14.6	15.5	14.2	15.6	17.2	17.8	15.8
Overall Average	15.3	16.3	15.7	15.7	15.8	14.3	15.6
Greater Winnipeg Gas(3)(4)	n.a.	18.9	15.7	16.6	16.6	9.5	15.5
ICG Utilities (Manitoba)	(10.2)	(1.6)	11.4	5.1	0.7	8.7	5.0

Notes:

(1) Achieved Rate of Return on Common Equity is net income before extraordinary items, less preferred dividends, divided by the average book value of common equity capital and retained earnings.

(2) Based on last 5 years of available data.

(3) In 1986 Greater Winnipeg Gas changed its method of accounting for revenues from gas sales to reflect unbilled revenues. The return on equity calculated based on the previous accounting method were:

1986	16.0%
1985	23.7
1984	22.3
1983	14.7
1982	22.2
Average	19.8%

(4) Earnings and equity accounts have been adjusted for the change in accounting method outlined in (2) above and for the sale of Winnex in 1984. Estimates by Wood Gundy.

MANITOBA CONSUMERS GAS CORP.

Achieved Rates of Return on Common Equity(1)

	Five - year average	1986	1985
Newfoundland Light & Power	15.8	14.0	15.2
Maritime Telephone & Telegraph	15.3	13.8	14.3
NewTel Enterprises	14.9	13.6	15.2
TransAlta Utilities	15.8	13.9	15.2
Quebec Telephone	15.2	13.2	15.0
Pacific Northern Gas	14.8	14.5	14.8
Canadian Utilities	16.9	17.3	16.0
Average	**15.5**	**14.3**	**15.1**
Greater Winnipeg Gas	15.5	9.5	16.6
ICG Utilities (Manitoba)	5.0	8.7	0.7

Note:

(1) Achieved Rate of Return on Common Equity is net income before extraordinary items divided by the average book value of common equity and retained earnings.

MANITOBA CONSUMERS GAS CORP.

Demand for Telephone Services, Electricity, Natural Gas and Crude Oil

Company	1980	1981	1982	1983	1984	1985	1986	Last 5 Years' Growth
Network access services (thousands)								
Bell Canada	6,174.5	6,348.2	6,416.2	6,574.0	6,823.4	7,092.2	7,403.9	3.1%
B.C. Telephone	1,322.2	1,380.8	1,399.7	1,440.7	1,474.8	1,525.2	1,579.2	2.7
New Brunswick Telephone	250.7	264.2	269.6	277.8	287.5	304.3	318.1	3.8
Island Telephone	44.0	45.0	47.0	48.7	50.7	52.8	54.6	3.9
Maritime Telephone & Telegraph	330.5	340.5	346.1	356.9	370.8	385.4	400.4	3.3
NewTel Enterprises	130.3	133.0	135.0	138.4	141.4	146.2	151.8	2.7
Quebec Telephone	198.9	202.4	204.5	209.5	215.8	221.5	226.6	2.3
Average								3.1
Electricity sales (mln kWh)								
Alberta Power	2,994	3,216	3,452	3,618	3,882	4,331	4,919	8.9%
Maritime Electric	460	461	453	470	494	515	539	3.2
Newfoundland Light & Power	2,848	2,832	2,971	2,957	3,148	3,331	3,411	3.8
TransAlta Utilities	12,548	13,572	14,670	15,513	17,078	18,248	18,597	6.5
Average								5.6
Natural gas transportation (bcf)								
Alberta Natural Gas	358	342	343	318	299	411	348	0.3%
NOVA	1,846	1,858	1,944	1,829	2,019	2,248	2,130	2.8
TransCanada PipeLines	1,122	1,181	1,147	1,009	1,162	1,205	1,174	1.0
Westcoast Transmission	306	278	249	239	255	267	250	(2.1)
Average								0.5
Crude oil deliveries (thousand cubic metres daily)								
Interprovincial Pipe Line	223	199	191	199	212	221	217	1.7%
TransMountain Pipe Line	27	26	24	22	23	25	26	0.0
Average								0.9
Natural gas sales (bcf)								
Canadian Western Natural Gas	154	143	154	144	137	132	126	(2.5)%
Northwestern Utilities	220	213	184	155	140	136	111	(12.2)
Consumers' Gas	286	297	309	284	324	322	323	1.7
Inland Natural Gas	52	55	53	53	53	56	56	0.4
ICG Utilities (Ontario)	124	122	107	106	108	112	104	(3.1)
Noverco	93	103	97	109	126	143	169	10.4
Pacific Northern Gas	11	11	17	21	25	26	22	14.9
Union Gas	247	250	219	251	255	269	271	1.6
Average								1.4
Greater Winnipeg Gas	49	47	48	44	46	49	46	(0.4)
ICG (Manitoba) Utility	n.a.	n.a.	16	15	17	17	17	1.2

Appendix 7

MANITOBA CONSUMERS GAS CORP.

Distribution of End Use Demand By Fuel and Sector in Manitoba (1985)

	Sector		
	Residential	Commercial	Industrial
Electricity	35.2%	27.2%	36.0%
Oil	12.6	6.5	13.6
Natural gas	44.2	62.2	25.0
Other	8.0	4.1	25.4
	100.0%	100.0%	100.0%

Source:

National Energy Board, Canadian Energy Supply and Demand 1985-2005.

Appendix 8

MANITOBA CONSUMERS GAS CORP.

Relative Energy Prices by Sector in Manitoba (1985)(1)

	Sector		
	Residential	Commercial	Industrial
Natural gas/Electricity	82%	49%	58%
Natural gas/Light fuel oil	48	50	-
Natural gas/Heavy fuel oil	-	62	60

Note:

(1) Relative price per unit of energy.

Source:

National Energy Board, Canadian Energy Supply and Demand 1985-2005.

Appendix 9

MANITOBA CONSUMERS GAS CORP.

Natural Gas Demand and Supply - Canadian Conventional Areas

	Domestic demand	Exports (petajoules)	Total	Productive capacity
1985	2,247	991	3,238	4,692
1986	2,265	853	3,118	4,707
1987	2,381	1,014	3,395	4,688
1988	2,513	1,233	3,746	4,634
1989	2,648	1,462	4,109	4,593
1990	2,677	1,401	4,078	4,506
1991	2,702	1,194	3,896	4,406
1992	2,744	960	3,705	4,300
1993	2,776	782	3,557	4,189
1994	2,819	692	3,511	4,064
1995	2,865	526	3,391	3,908
1996	2,898	355	3,253	3,744
1997	2,942	187	3,129	3,525
1998	2,972	89	3,062	3,307
1999	3,024	41	3,065	3,109

Source:

National Energy Board, Canadian Energy Supply and Demand 1985-2005.

Appendix 10

MANITOBA CONSUMERS GAS CORP.

Real Gross Domestic Product Growth Rates

	1987-1990	1990-1995	1995-2000	2000-2005
Atlantic Canada	2.2%	1.6%	2.4%	2.4%
Central Canada	3.1	2.1	2.2	2.7
Prairies	2.8	3.3	2.4	2.3
B.C. and Territories	2.5	1.9	2.2	2.1
Canada	2.9	2.3	2.2	2.5
Manitoba	3.2	3.1	2.3	2.5

Source:

National Energy Board, Canadian Energy Supply and Demand 1985-2005, high price case.

Appendix 11

MANITOBA CONSUMERS GAS CORP.

Total Energy Demand - Manitoba

	1987	1988	1989	1990	1995	2000	2005	Annual Growth (%)
				(petajoules)				
Residential	59.4	59.5	60.2	61.2	63.7	69.8	74.7	1.3%
Commercial	49.0	49.0	50.2	50.3	52.5	57.7	62.9	1.3
Industrial	43.4	45.3	46.9	47.6	57.0	64.6	75.0	3.0
Total	151.8	154.7	157.3	159.1	173.2	192.1	212.6	1.8%

Source:

National Energy Board, Canadian Energy Supply and Demand 1985-2005, high price case.

Appendix 12

MANITOBA CONSUMERS GAS CORP.

Distribution of End Use Demand by Fuel

	1987	1988	1989	1990	1995	2000	2005
Electricity	20.7%	20.9%	21.1%	21.3%	22.9%	23.7%	24.8%
Oil(1)	41.0	40.4	40.0	39.6	38.1	37.4	36.5
Natural Gas	30.8	31.0	31.0	31.0	30.6	30.3	30.1
Other	7.5	7.7	7.9	8.1	8.4	8.6	8.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source:

National Energy Board, Canadian Energy Supply and Demand 1985-2005.

Note:

(1) Includes automotive fuels.

MANITOBA CONSUMERS GAS CORP.

Dividend Payout

	Five-year average	1986	1985
Newfoundland Light & Power	51.7%	59.5%	51.7%
Maritime Telephone & Telegraph	56.8	63.3	60.7
NewTel Enterprises (telephone holding company)	65.0	66.7	62.9
TransAlta Utilities	52.1	63.5	54.2
Quebec Telephone	64.9	76.0	67.0
Pacific Northern Gas	51.4	64.2	53.3
Canadian Utilities	54.3	59.5	58.9
Average	**56.6**	**64.7**	**58.4**
Greater Winnipeg Gas	67.7	101.8	63.0
ICG Utilities (Manitoba)	nfm	27.1	nfm

MANITOBA CONSUMERS GAS CORP.

Dividend Payout(1)

	1981	1982	1983	1984	1985	1986	Five-year average(2)
Telephone companies							
Bell Canada	60.6%	63.0%	60.1%	54.1%	53.9%	61.9%	58.6%
B.C. Telephone	59.2	75.8	67.8	78.7	77.8	69.9	74.0
Island Telephone	63.2	59.5	59.2	59.0	60.0	60.9	59.7
Maritime Tel. & Tel.	57.3	51.8	53.6	54.5	60.7	63.3	56.8
New Brunswick Telephone	64.7	63.3	60.9	62.6	72.8	73.9	66.7
NewTel Enterprises	68.8	65.3	66.9	63.2	62.9	66.7	65.0
Quebec Telephone	64.9	59.7	54.7	66.3	67.0	76.0	64.7
Average	62.7	62.6	60.5	62.6	65.0	67.5	63.6
Electric distribution companies							
Maritime Electric Company	59.1%	47.0%	52.2%	49.5%	51.0%	51.1%	50.2%
Newfoundland Light & Power	51.6	47.8	47.7	51.8	51.7	59.5	51.7
TransAlta Utilities Corporation	46.8	44.4	48.2	50.0	54.2	63.5	52.1
Average	52.5	46.4	49.4	50.4	52.3	58.0	51.3
Pipeline companies							
Alberta Natural Gas	42.7%	49.4%	34.6%	42.4%	43.8%	71.9%	48.4%
Interprovincial Pipe Line	63.9	52.6	47.3	49.0	49.9	59.5	51.7
NOVA, An Alberta Corporation	43.0	50.0	66.7	63.5	185.3	222.2	101.5
TransCanada PipeLines	40.6	32.0	31.5	39.8	46.7	93.3	48.7
Westcoast Transmission	55.1	63.0	68.4	73.8	73.8	96.1	75.0
Average	49.1	49.4	49.7	53.7	63.9	80.2	65.1
Gas distribution companies							
Canadian Utilities	43.6%	42.0%	53.1%	57.8%	58.9%	59.3%	54.3%
Canadian Western Natural Gas	44.3	37.9	47.1	46.8	34.7	54.6	44.2
Consumers' Gas	n.a.	52.2	63.9	55.8	56.7	65.3	58.8
Noverco	54.7	65.8	50.9	57.0	53.3	48.3	55.1
Inland Natural Gas	56.3	68.8	62.5	48.0	39.8	50.4	53.9
Inter-City Gas	57.1	65.6	43.5	29.9	28.9	38.6	41.3
Union Enterprises	81.6	95.2	60.2	61.5	88.9	n.a.	77.5
Average	55.8	61.1	54.5	51.0	51.6	52.7	55.0
Greater Winnipeg Gas	80.4%	40.4%	45.5%	66.7%	60.4%	101.8%	67.7%
ICC Utilities (Manitoba)	0.0	0.0	0.0	389.1	nfm	27.1	nfm

Notes:

(1) Dividend Payout is calculated as the percentage of net income available to common shareholders before extraordinary and unusual items that is paid out in common dividends.

(2) Based on last five years of available data.

Appendix 14

MANITOBA CONSUMERS GAS CORP.

Premium to Book Value - Greater Winnipeg Gas

Valuation(000)					
Equity(1)	$49,855	$49,855	$49,855	$49,855	$49,855
Premium to Book	1.30	1.35	1.40	1.45	1.50
Market Value of Equity	$64,811	$67,304	$69,797	$72,290	$74,783

Premium to Book Value - ICG Utilities (Manitoba)

Valuation(000)						
Equity(1)	$8,553	$8,553	$8,553	$8,553	$8,553	$8,553
Premium to Book	1.05	1.10	1.15	1.20	1.25	1.30
Market Value of Equity	$8,980	$9,408	$9,836	$10,263	$10,691	$11,119

Notes:

(1) Based on year-end 1986 values.

Appendix 15

MANITOBA CONSUMERS GAS CORP.

Dividend Yields - Comparative Companies

Company	Current dividend	Retention ratio(1)	ROE(1)	Forecast dividend(2)	Price	Dividend yield(4)
Newfoundland Light & Power	$1.24	0.405	0.140	$1.31	$20.25	0.065
Maritime Telephone & Telegraph	0.96	0.367	0.138	1.01	15.625	0.065
NewTel Enterprises (telephone holding company)	1.16	0.333	0.136	1.21	17.00	0.071
TransAlta Utilities	1.84	0.365	0.139	1.93	29.50	0.065
Quebec Telephone	0.92	0.240	0.132	0.95	14.875	0.064
Pacific Northern Gas	1.40	0.358	0.164	1.48	22.25	0.067
Canadian Utilities	1.30	0.405	0.173	1.39	20.375	0.068
Average		**0.353**				**0.066**

Note:

(1) Based on 1986 results.

(2) Calculated as current dividend times estimated growth where growth was estimated as retention ratio times return on equity.

(3) Closing price as at July 3, 1987

(4) Calculated as forecast dividend over current price.

MANITOBA CONSUMERS GAS CORP.

Greater Winnipeg Gas - Rate Base

	Approval Rate Base based on 1983 test year	Rate Base Application based on 1986 test year(2)
Average Net Plant	$92,542,2593	$109,157,634
Customer's Contributions in aid of Construction	(734,762)	(1,073,361)
Working Capital Allowance		
- Materials & Supplies	5,387,840	4,974,758 (1)
- Accounts Receivable	1,029,653	-
- Allow. for doubtful accts.	(485,289)	(930,091)
- Overdue Accts. Receivable	3,639,698	3,919,548
- Customer's Security Deposits	(11,696)	(6,570)
- Working Cash for payrolls, etc.	3,755,234	5,163,711
- Working Capital adjustments	117,853	-
- Finance Contracts	-	2,037,781
Total Working Capital	13,433,293	15,159,137
Receipt of D.S.E.P. Grants	(183,517)	-
Rate Base	$105,057,273	$123,243,410

Notes:

(1) Includes prepaid expenses.
(2) Based on the GWG "Application to the Public Utilities Board of Manitoba for a General Rate Increase Based on 1986 Historical Test Year", 1987.

MANITOBA CONSUMERS GAS CORP.

ICG Utilities (Manitoba) - Rate Base

	Approval Rate Base based on 1985 test year	Estimated Rate Base based on 1986 test year	
Average Net Plant	$20,184,493	$22,791,800	
Customers' contribution	(1,480,186)	(1,568,650)	
Working Capital Allowance			
- Operating Expenses	747,354	724,488	(1)
- Municipal and other taxes	167,444	186,136	(2)
- Income Taxes	124,576	187,590	(2)
- Inventories	221,708	266,250	(3)
- Prepaid Expenses	48,658	86,200	(3)
- Accounts Receivable Arrears	628,408	533,175	(2)
- Customers' Security Deposits	(113,175)	(195,000)	(3)
- Allow. for Doubtful Accts.	(47,303)	(40,134)	
- Finance Contracts	9,100	-	
Total Working Capital	1,786,770	1,748,705	
Rate Base	$20,491,077	$22,971,855	

Notes:

(1) Based on one-eighth of 1986 operating expenses.
(2) Estimated based on the relative values of the accounts in 1985 and in 1986.
(3) Balance sheet amounts.

MANITOBA CONSUMERS GAS CORP.

Manitoba Consumers Gas Corp. - Rate Base

(1986)

	Greater Winnipeg Gas	ICG Utilities (Manitoba)	Manitoba Consumer Gas Corp.
Average Net Plant	$109,157,634	$22,791,800	$131,949,434
Customers' Contributions in aid of Construction	(1,073,361)	(1,568,650)	(2,642,011)
Working Capital Allowance			
- Materials & Supplies	4,974,758	538,586	5,513,344
- Allow. for doubtful Accts.	(930,091)	(40,134)	(970,225)
- Overdue Accts. Receivable	3,919,548	533,175	4,452,723
- Customers' Security Deposits	(6,570)	(195,000)	(201,570)
- Working Costs for payroll, etc.	5,163,711	912,078	6,075,789
- Finance Contracts	2,037,781	-	2,037,781
Total Working Capital	15,159,137	1,943,705	17,102,842
Rate Base	$123,243,410	$22,971,855	$146,215,265

MANITOBA CONSUMERS GAS CORP.

Dividend Yield - Manitoba Consumers Gas Corp.

Value of equity(1)	$58,564	$58,564	$58,564	$58,564
Allowable return on equity(2)	13.0%	13.25%	13.5%	13.75%
Estimated earnings	$7,613	$7,760	$7,906	$8,053
Comparable dividend level(3)	$4,926	$5,021	$5,115	$5,210
Dividend yield	0.066	0.066	0.066	0.066
Market value of equity(4)	$74,636	$76,076	$77,500	$78,939
Dividend yield	0.070	0.070	0.070	0.070
Market value of equity(4)	$70,371	$71,729	$73,071	$74,429

Notes:

(1) calculated as 40% of the estimated rate base for 1987.

(2) Based on estimated allowable returns for 1987.

(3) Based on a payout ratio of 64.7% (see Appendix 15).

(4) Calculated as estimated dividend level divided by dividend yield.

MANITOBA CONSUMERS GAS CORP.

Historical Earnings Per Share(1)

Company	1981	1982	1983	1984	1985	1986
Newfoundland Light & Power	$1.48	$1.78	$1.95	$1.95	$2.05	$2.01
Maritime Telephone & Telegraph	1.14	1.41	1.47	1.56	1.50	1.47
NewTel Enterprises (telephone holding company)	1.28	1.50	1.60	1.74	1.82	1.74
TransAlta Utilities	2.22	2.61	2.74	2.88	2.95	2.71
Quebec Telephone	1.01	1.12	1.32	1.24	1.32	1.21
Pacific Northern Gas	1.89	1.81	2.31	2.36	2.44	2.18
Canadian Utilities	1.44	1.69	1.62	1.87	1.87	2.16

Note:

(1) Basic earnings per share before extraordinary items.

MANITOBA CONSUMERS GAS CORP.

Historical Price to Earnings Ratios

Company	1981	1982	1983	1984	1985	1986
Newfoundland Light & Power	6.8x	6.7x	7.4x	8.1x	8.5x	9.1x
Maritime Telephone & Telegraph	6.4	6.4	7.9	9.1	10.2	10.4
NewTel Enterprises (telephone holding company)	7.0	7.6	9.1	8.6	9.7	9.2
TransAlta Utilities	7.8	8.4	7.8	8.4	9.4	10.6
Quebec Telephone	5.9	6.1	7.6	9.1	10.9	11.9
Pacific Northern Gas	5.9	7.9	6.4	7.0	8.2	9.5
Canadian Utilities	7.6	9.3	9.7	9.1	7.1	8.8
Average	6.8	7.5	8.0	8.5	9.1	9.9

Note:

(1) Based on the closing prices for the above companies in each of the respective years.

MANITOBA CONSUMERS GAS CORP.

Price to Earnings Ratio

Company	Earnings per share 1986	Earnings per share 1987(1)	Price(2)	Price to Earnings Ratio 1986	Price to Earnings Ratio 1987
Newfoundland Light & Power	$2.01	$2.00	$20.25	10.1x	10.1x
Maritime Telephone & Telegraph	1.47	1.55	15.625	10.6	10.1
NewTel Enterprises (telephone holding company)	1.74	1.80	17.00	9.8	9.4
TransAlta Utilities	2.71	3.00	29.50	10.9	9.8
Quebec Telephone	1.21	1.37	14.875	12.3	10.9
Pacific Northern Gas	2.18	n.a.	22.25	10.2	n.a.
Canadian Utilities	2.16	2.05	20.375	9.4	9.9
Average				**10.5**	**10.0**

Notes:

(1) As estimated by The Polymetric Report.

(2) Closing price as at July 3, 1987.

Appendix 19

MANITOBA CONSUMERS GAS CORP.

Net Income Before Extraordinary Items

	1986	1985	1984	1983	1982
Greater Winnipeg Gas	$4,726,000	$7,963,000	$9,300,000	$8,858,000	$9,297,000
ICG Utilities (Manitoba)	678,500	66,000	299,300	634,100	(63,200)
	$5,404,500	$8,029,000	$9,599,300	$9,492,100	$9,233,800

MANITOBA CONSUMERS GAS CORP.

Earnings Multiple Valuation - Manitoba Consumers Gas

Value of equity	$58,564	$58,564	$58,564	$58,564
Allowable return on equity	13.0%	13.25%	13.5%	13.75%
Estimated earnings(1)	$7,613	$7,760	$7,906	$8,053
Multiple - 9.0x(2)	$68,517	$69,840	$71,154	$72,477
- 9.5x	**$72,324**	**$73,720**	**$75,107**	**$76,504**
- 10x	$76,130	$77,600	$79,060	$80,530

Notes:

(1) 1987 earnings based on estimated returns on the equity component of estimated rate base.

(2) Multiples based on Appendix 18.

MANITOBA CONSUMERS GAS CORP.

Balance Sheet - Greater Winnipeg Gas

(December 31, 1986 with comparative figures at December 31, 1985)

Assets

	1986	1985
	$	$
Current Assets		
Cash	35,100	212,600
Accounts receivable —		
Trade	36,779,200	46,599,600
Affiliated companies	441,700	—
Inventories (note 3)	4,830,800	4,835,800
Prepaid expenses	613,900	423,900
	42,700,700	52,071,900
Fixed Assets (note 4)		
Property, plant and equipment — at cost	157,624,300	147,239,800
Accumulated depreciation	41,229,400	39,703,500
	116,394,900	107,536,300
Deferred Charges — at cost, less amortization		
Financing expenses	592,100	478,100
Rate hearings and other	94,000	155,000
Deferred foreign exchange loss	1,030,200	1,454,100
Gas storage exploration costs	936,200	1,051,400
	2,652,500	3,138,600
	161,748,100	162,746,800

Approved by the Board

N. J. DIDUR, Director

A. P. RATHKE, Director

MANITOBA CONSUMERS GAS CORP.

Liabilities

	1986	1985
	$	$
Current Liabilities		
Bank overdraft	775,600	1,425,800
Accounts payable and accrued liabilities —		
Trade	25,485,100	30,175,900
Affiliated companies	—	1,937,900
Accrued interest on long-term debt	1,175,000	1,235,000
Advance from parent company	8,050,000	19,475,000
Income taxes payable	9,654,700	9,620,500
Current portion of long-term debt	2,195,900	2,076,100
	47,336,300	65,946,200
Long-Term Debt, less current portion (note 5)	63,490,000	45,779,500
Contributions in Aid of Construction	1,066,600	1,080,100
	111,892,900	112,805,800

Shareholders' Equity

Capital Stock		
Authorized — 2,000,000 common shares		
Issued and fully paid — 1,604,076 common shares	9,487,300	9,487,300
Retained Earnings	40,367,900	40,453,700
	49,855,200	49,941,000
	161,748,100	162,746,800

MANITOBA CONSUMERS GAS CORP.

Balance Sheet - ICG Utilities (Manitoba)
(December 31, 1986 with comparative figures at December 31, 1985)

ASSETS

	1986 $	1985 $
CURRENT ASSETS		
Accounts receivable	7,850,500	9,252,700
Inventories	299,800	232,700
Prepaid expense	101,500	70,900
	8,251,800	9,556,300
EMPLOYEE LOANS	7,500	30,400
FIXED ASSETS		
Property, plant and equipment - at cost	34,372,600	30,271,900
Accumulated depreciation	9,859,000	9,201,900
	24,513,600	21,070,000
DEFERRED CHARGES - at cost, less amortization		
Financing expense	18,600	30,200
Rate hearings and other	149,400	318,300
Expansion costs	105,400	210,800
Deferred foreign exchange loss	52,100	87,000
	325,500	646,300
	33,098,400	31,303,000

MANITOBA CONSUMERS GAS CORP.

Balance Sheet - ICG Utilities (Manitoba)
(December 31, 1986 with comparative figures at December 31, 1985)

LIABILITIES

CURRENT LIABILITIES	1986 $	1985 $
Bank advances	957,800	465,800
Accounts payable and accrued liabilities -		
Trade	6,952,300	7,417,900
Affiliated companies	879,400	385,800
Income taxes payable	252,100	84,000
Current portion of long-term debt	1,935,000	335,000
Customers' security deposits	195,000	107,900
	11,171,600	8,796,400
CONTRIBUTIONS IN AID OF CONSTRUCTION	1,626,200	1,511,100
ADVANCES FROM PARENT AND AFFILIATED COMPANIES	10,017,700	10,271,900
LONG-TERM DEBT	1,730,000	3,665,000
	24,545,500	24,244,400

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized - 25,000 common shares		
Issued and fully paid - 23,191 shares (1985 - 23,190)	4,840,800	3,840,800
RETAINED EARNINGS	3,712,100	3,217,800
	8,552,900	7,058,600
	33,098,400	31,303,000

MANITOBA CONSUMERS GAS CORP.

Consolidated Balance Sheet - Manitoba Consumers Gas (1)

(1986)

	Greater Winnipeg Gas	ICG Utilities (Manitoba)	Manitoba Consumers Gas Corp.
ASSETS			
Current Assets	$ 42,700,700	$ 8,251,800	$ 50,952,500
Other Assets	-	7,500	7,500
Fixed Assets			
- property, plant & equipment	157,624,300	34,372,600	191,996,900
- accum. depreciation	41,229,400	9,859,000	51,088,400
	116,394,900	24,513,600	140,908,500
Deferred Charges	2,652,500	325,500	2,978,000
	$161,748,100	$33,098,400	$194,846,500
LIABILITIES & SHAREHOLDERS' EQUITY			
Short-term debt	$ 12,196,500	$ 2,892,800	$ 15,089,300
Other current liabilities	35,139,800	8,278,800	43,418,600
Long-term debt	63,490,000	11,747,700	75,237,700
Cont. in aid of construction	1,066,600	1,626,200	2,692,800
Minority Interest	-	-	99,710
Shareholders' equity	49,855,200	8,552,900	58,308,390
	$161,748,100	$33,098,400	$194,846,500

Note:

(1) Assuming Greater Winnipeg Gas and ICG Utilities (Manitoba) are consolidated under one holding company at current book values.

MANITOBA CONSUMERS GAS CORP.

Historical Cash Flow Measures(1)

1) Greater Winnipeg Gas

(000's)

	1981	1982	1983	1984	1985	1986
Begining Cap. Inv.	$124,364	$130,258	$136,671	$130,643	$137,321	$147,240
Capital Expenditures	7,542	7,638	9,238	8,219	11,806	13,051
Write offs/Sales (2)	1,648	1,225	887	1,541	1,887	2,667
Ending Cap. Inv.	130,258	136,671	145,022	137,321	147,240	157,624
Average Inv.	127,311	133,456	140,847	133,982	142,280	152,432
Beginning Aggregate Depreciation	31,957	33,924	36,694	36,261	37,797	39,704
Depreciation expenses	3,615	3,995	4,489	3,077	3,794	4,192
Write offs/Sales (2)	1,648	1,225	887	1,541	1,887	2,667
Ending Aggregate Depreciation	33,924	36,694	40,296	37,797	39,704	41,229

2) ICG Utilities (Manitoba) Ltd.

(000's)

	1981	1982	1983	1984	1985	1986
Begining Cap. Inv.	$8,588	$12,083	$12,968	$14,020	$28,108	$30,272
Capital Expenditures	693	947	1,127	675	2,432	4,328
Write offs/Sales (2)	65	62	75	114	268	227
Ending Cap. Inv.	9,216	12,968	14,020	14,581	30,272	34,373
Average Inv.	8,902	12,526	13,494	14,300	29,190	32,323
Beginning Aggregate Depreciation	1,962	3,210	3,469	3,742	8,621	9,202
Depreciation expenses	245	321	348	414	849	884
Write offs/Sales (2)	65	62	75	114	268	227
Ending Aggregate Depreciation	2,142	3,469	3,742	4,042	9,202	9,859

3) Manitoba Gas Utility

(000's)

	1981	1982	1983	1984	1985	1986	Average
Begining Cap. Inv.	$132,952	$142,341	$149,639	$144,663	$165,429	$177,512	
Capital Expenditures	8,235	8,585	10,365	8,894	14,238	17,379	10,783
Write offs/Sales (2)	1,713	1,287	962	1,655	2,155	2,894	
Ending Cap. Inv.	139,474	149,639	159,042	151,902	177,512	191,997	
Average Inv.	136,213	145,990	154,340	148,283	171,471	184,755	
Beginning Aggregate Depreciation	33,919	37,134	40,163	40,003	46,418	48,906	
Depreciation expenses	3,860	4,316	4,837	3,491	4,643	5,076	
Write offs/Sales (2)	1,713	1,287	962	1,655	2,155	2,894	
Ending Aggregate Depreciation	36,066	40,163	44,038	41,839	48,906	51,088	
Depreciation/Average Net Inv. (3)	3.77%	3.96%	4.24%	3.22%	3.71%	3.74%	3.77%

Notes:

(1) Discrepancies existing between ending Cap. Inv. and Ending Agg. Depreciation levels and subsequent years Beg. Cap. Inv. and Beg. Agg. Depreciation levels are a result of a sale of a subsidiary or other similar events.

(2) Estimated on the basis of the difference between the change in consecutive aggregate depreciation levels and depreciation expenses for each of the above years.

(3) Average Net Investment is equal to Average Investment less Beginning Aggregate Depreciation.

MANITOBA CONSUMERS GAS CORP.

Allowable Working Capital as a Percentage of Rate Base

(000's)

	1986E	1985	1984	1983	1982	1981	1980
Greater Winnipeg Gas							
Rate Base	$123,243(1)	$116,018	n.a.	$105,057	$101,599	$ 96,461	$91,116
Working Capital	15,159(1)	13,347	n.a.	13,433	13,143	11,102	8,916
% of rate base	12.3	11.5	n.a.	12.8	12.9	11.5	9.8
ICG Utilities (Manitoba)							
Rate Base	$22,972(2)	$20,491	$19,299	$ 9,933	$ 9,573	$ 8,836	n.a.
Working Capital	1,749(2)	1,787	1,484	552	675	522	n.a.
% of rate base	7.6	8.7	7.7	5.6	7.1	5.9	n.a.
Manitoba Consumers Gas Corp.							
Rate Base	$146,215(3)	$136,509	n.a.	$114,990	$111,172	$105,297	n.a.
Working Capital	16,908(3)	15,134	n.a.	13,985	13,818	11,624	n.a.
% of rate base	11.6	11.1	n.a.	12.2	12.4	11.0	n.a.

Working capital/rate base - 11.66%

Notes:

(1) Based on 1986 Historical Test Year Rate Base Application - See Appendix 16, Page 1.
(2) As estimated by Wood Gundy - See Appendix 16, Page 2.
(3) As estimated by Wood Gundy - See Appendix 16, Page 3.

MANITOBA CONSUMERS GAS CORP.

Regulated Industry Betas(1)

Oil pipelines	
Interprovincial Pipe Line	0.64
TransMountain Pipelines	0.57
Average	0.61
Gas pipelines	
Alberta Natural Gas	1.02
Consolidated Pipelines	0.57
NOVA	0.81
TransCanada Pipelines	0.71
Average	0.78
Gas utilities	
Inland Natural Gas	0.42
Intercity Gas	0.61
Union Enterprises	0.29
Average	0.44
Electric utilities	
Canadian Utilities	0.33
Maritime Electric	0.70
Newfoundland Light & Power	0.33
TransAlta Utilities	0.54
Average	0.48
Telephone	
Bell Canada Enterprises	0.49
B.C. Telephone	0.50
Bruncor Inc.	0.23
Island Telephone	0.70
Maritime Telephone & Telegraph	0.50
NewTel Enterprises	0.72
Quebec Telephone	0.68
Average	0.55
Overall Average	0.57

Note:

(1) Based on data supplied by The Polymetric Report, July 1987.

MANITOBA CONSUMERS GAS CORP.

Calculation of Cost of Equity

Formula

$$K_e = R_f + B (R_m - R_f)$$

where K_e = cost of equity

B = beta

$R_m - R_f$ = market risk premium

R_f = risk free return as measured by the rate on 90 day Treasury Bills

Variables

B = Industry average for selected regulated companies as per The Polymetric Report dated July 1987.

$R_m - R_f$ = 4.0 to 8.0.

R_f = 8.3 as at July 7, 1987 per Wood Gundy Market Trading Report.

Cost of equity for Manitoba Consumers Gas Corp.

	Rm - Rf		
	4.0	5.0	6.0
K_e	10.7%	11.3%	11.9%

Appendix 27

MANITOBA CONSUMERS GAS CORP.

Discounted Cash Flow Values

($000)

Discount Rate	Allowable Return on Equity			
	13.0%	13.25%	13.5%	13.75%
10.5%	$76,305	$78,491	$80,676	$82,861
11.0	71,287	73,333	75,379	77,424
11.5	66,801	68,723	70,644	72,566
12.0	62,775	64,584	66,394	68,203

MANITOBA CONSUMERS GAS CORP.

Free Cash Flows - Forecast (1)

($000)

Manitoba Consumers Gas Corp.	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996 and thereafter(2)	Total
Equity	58,564	65,025	69,613	72,027	74,791	77,670	80,659	83,977	87,389		
Return on Equity	13.25%	13.25%	13.25%	13.25%	13.25%	13.25%	13.25%	13.25%	13.25%	13.25%	
Net Income	7,760	8,616	9,224	9,544	9,910	10,291	10,687	11,127	11,579		
Capital Expenditures	(21,000)	(11,000)	(12,000)	(13,000)	(14,000)	(15,000)	(15,000)	(16,000)	(17,000)		
Book Dep'r	5,588	5,980	6,188	6,425	6,673	6,930	7,214	7,508	7,808		
Change in Working Capital	(3,287)	(1,190)	(845)	(445)	(509)	(530)	(551)	(611)	(628)		
Change in Debt	10,207	3,737	4,006	4,223	4,714	5,173	5,015	5,476	5,906		
Change in Equity	8,600	2,491	2,670	2,815	3,142	3,448	3,342	3,650	3,937		
Free Cash Flow (Company)(3)	7,867	8,633	9,242	9,562	9,929	10,312	10,709	11,149	11,602	690,430	779,435
Free Cash Flow (Shareholder) (3)	(733)	6,143	6,572	6,747	6,787	6,864	7,366	7,499	7,665	466,982	521,892
Present Value(4) - 11%	(660)	4,986	4,805	4,444	4,028	3,670	3,548	3,254	2,996	42,262	73,333

Notes:

(1) Forecast of capital expenditures in years 1987 to 1996 based on ICG projections.
(2) Based on the total value of 1996 and all subsequent cash flows.
(3) Free Cash Flow to the Company is the sum of all the above cash flow components. Free Cash Flow to shareholders is equal to Free Cash Flow to the Company plus change in equity.
(4) Discount rate of 11% is representative of the cost of equity for Manitoba Consumers Gas Corp. based on the capital asset pricing model (see Appendix 26 for details of the cost of equity calculation). Figures represent the present value of the free cash flow stream to shareholders.